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UNITED STATES DEPARTMENT OF AGRICULTURE
Commodity Stabilization Service

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WHEAT STABILIZATION ACTIVITIES

Supplies of "price-support" wheat in the hands of the Commodity Credit Corporation reached an all-time high total of almost a billion bushels early in June 1955. These heavy stocks have aroused considerable interest in the history of the wheat price-support program--when it started, quantities supported, disposal operations, and the economic conditions under which support has been carried on over the years. Highlights of the support program are discussed in the sections that follow, and tables are included. Brief mention also is made of other types of programs carried on now or in earlier years to stabilize marketings, control production, or facilitate the disposal of wheat.

CCC Wheat Price Support, 1938-55

(1938-42 crops)

Price support for wheat was first offered on the 1938 crop, when only 86 million bushels were pledged for loan.

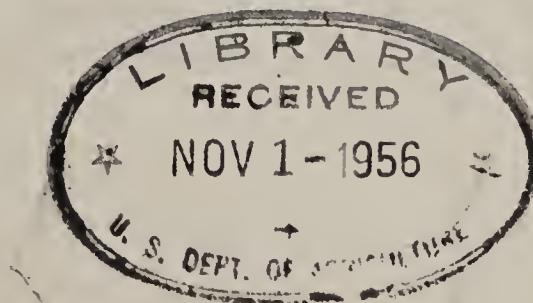
With the start of World War II in Europe, exports of wheat dropped off sharply and remained low to the end of the war. Despite acreage allotments, supplies of wheat mounted sharply. As a matter of fact, the supply of wheat on July 1, 1942, was not a great deal smaller than the supply on July 1, 1954--1,601 million bushels in 1942 as compared with the 1,875 million bushels on hand July 1, 1954.

Accumulating supplies of wheat put pressure on prices, and support activity began to increase in volume. A total of 408 million bushels of 1942-crop wheat went under price support, a high point for the 1938-42 period, and inventories in the hands of CCC at the end of June 1942 reached 320 million bushels.

(1943-47 crops)

Following Pearl Harbor, the big surplus of wheat was geared into the overall war effort. In 1942, for example, the Government began to subsidize nonfood uses of wheat. By the end of 1945, when the subsidy program was discontinued, 788 million bushels of wheat had been diverted to feed use, at a cost of \$238,000,000, and 266 million bushels had been diverted at a cost of about \$23,000,000 for use in the manufacture of industrial alcohol.

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Following the end of the war in 1945, exports increased sharply to meet expanded demand for food in war-torn Europe and Asia. In 1946, a Famine Emergency Committee was appointed by the President to bring about voluntary conservation of wheat, so as to make a maximum volume available for export; and the Department of Agriculture also put controls into effect to direct wheat and wheat products into export channels. Again, in 1947, a food and feed conservation campaign helped to make possible an expanded export program. Exports for the 1945, 1946, and 1947 wheat marketing years averaged 425 million bushels, as compared with an average of only 60 million bushels in the four marketing years 1941-44.

All these war and postwar measures "took up the slack" in supplies. Market prices averaged above support prices during the entire 1943-47 period. The amount of grain going under price support declined after the 1944 crop, averaging only 38 million bushels annually in the 1945-47 period. For those 3 years there was no wheat in the price-support inventory on June 30.

(1948-49 crops)

A record wheat crop of 1,359 million bushels in 1947 restored the Nation's depleted granaries. But a large crop in 1948 tipped the scales in the direction of surplus. Despite record exports of 504 million bushels from the 1948 crop, market prices stayed close to support levels and support activity was heavy.

The 1949 wheat crop plus a carryover of 307 million bushels brought a continuation of the unfavorable supply situation of the previous year. Support activity again was heavy, 381 million bushels being placed under support. Much of this wheat was delivered to CCC under the price-support program, and CCC stocks on June 30, 1950, totaled 328 million bushels.

(1950-51 crops)

Basic farm legislation provides for controls when supplies of wheat get out of line with demand. Accordingly, acreage allotments were made effective for the 1950 crop. Growers planted within their allotted acreage, and production in 1950 was well below average. But a large carryover again meant heavy supplies, and 197 million bushels went under support.

In the meantime, however, South Korea was invaded by communist forces and the United Nations moved to stop the aggression. By December 1950, war psychology had hit most of the wheat-importing countries and they rushed to buy United States wheat to build up stocks against possible emergencies and to hedge against expected inflationary price increases. A food crisis in India heightened the foreign demand for American grain. By midyear 1951, the U. S. had become the only supplying country in which grain could be obtained in quantity. Some of the wheat required to meet export demand came from CCC stocks, which, in June 1951, totaled only 196 million bushels.

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Acreage allotments had been proclaimed for the 1951 crop, but in view of the Korean crisis and the strong world demand for wheat, the allotments were terminated. As a matter of fact, the Department--after a review of requirements--announced "production goals" for a number of major farm crops, including wheat, and growers responded with increased acreage. Poor growing conditions in 1951, however, brought much acreage abandonment, lowered yields, and reduced production. At the same time exports, which had been heavy the latter part of the 1950-51 marketing year, picked up momentum in the 1951-52 season, and eventually totaled 475 million bushels. A total of 213 million bushels of 1951-crop wheat went under support. Much of this wheat was "redeemed," however, and CCC stocks at the end of June 1952 had dropped to 143 million bushels.

(1952-55 crops)

Neither acreage allotments nor marketing quotas were proclaimed for the 1952 crop. The seeded acreage was large, yields were high, and production was in excess of needs. Support activity was heavy as a result, and the CCC wheat inventory on June 30, 1953, following a substantial "take-over," rose to 470 million bushels.

The 1953 crop, plus a big carryover, pushed supplies to a record peak. There was another heavy take-over of price-support wheat and CCC stocks by June 30, 1954, had climbed to 774 million bushels.

In the meantime, marketing quotas had been proclaimed for the 1954 crop and approved by producers voting in a referendum. The national acreage allotment for 1954 was established, in line with a 1953 amendment to the Agricultural Adjustment Act of 1938, at 62 million acres--16.7 million below the 1953 planted acreage. Although growers "stayed within" their allotted acres, and production declined somewhat, supplies remained large. For the third year in a row, there was pressure on prices, active support operations, and a big take-over. In June 1955, the cumulative effect of surplus production was reflected in CCC's wheat holdings, which reached an alltime high total of 966 million bushels, representing a Government investment of \$2,506,000,000.

Two important actions were taken with respect to 1955-crop wheat: First, marketing quotas were proclaimed for the 1955 crop, and the national acreage allotment set at the maximum permitted by law under present conditions of heavy supply--55 million acres. These quotas were approved by producers. Second, support, which had been mandatory at the 90-percent-of-parity level since 1944, was lowered, following passage of the Agricultural Act of 1954, to $82\frac{1}{2}$ percent of parity for the 1955 crop, or from \$2.24 a bushel for 1954 wheat to \$2.06 a bushel for wheat of the 1955 crop.

(1956 crop)

On May 13, 1955, Secretary of Agriculture Benson proclaimed a national wheat marketing quota for the 1956 wheat crop, as required by law, and set June 25 as the date for the referendum among wheat growers on whether or not quotas will be in effect for the 1956 crop. The Secretary also announced a national wheat acreage allotment of 55 million acres for 1956--the minimum level specified by law under present conditions of excessive supply--and the same allotment which was in effect for 1955.

In commenting on the marketing quotas, the Secretary said, "Wheat truly represents one of the most serious problems in the entire farm program. Under present program operations, we are no more than holding our own. The tremendous surplus accumulated under high price supports still bears down on prices and forces the Government into costly support activity. By the time the current take-over of loan stocks is completed in the next few weeks, the Commodity Credit Corporation will be holding in its inventory around a billion bushels of wheat, costing more than two and one-half billion dollars --and running up a storage bill of 150 million dollars a year."

The following table summarizes the more important wheat price-support statistics:

Table 1.--Wheat price support: Selected statistics, 1938-56.

Crop	: Support level, per- centage of-- parity price percent	: Support level, dollars per bushel	: Season average price received by farmers	: Bushels put under support	: CCC stocks in price support inventory at end of crop year	: Allotments in effect ("M" indi- cates quotas also in effect)
		dols.	dols.	mil. bu.	mil. bu.	mil. acres
1938	52	0.59	0.56	85.7	6.6	<u>1/</u> 62.0
1939	56	.63	.69	167.7	1.6	55.0
1940	57	.64	.67	278.4	169.2	62.0
1941	85	.98	.94	366.3	319.7	62.0 M
1942	85	1.14	1.09	408.1	259.8	<u>2/</u> 55.0 M
1943	85	1.23	1.35	130.2	99.1	<u>2/</u> 55.0 M
1944	90	1.35	1.41	180.4	103.7	none
1945	90	1.38	1.49	59.7	none	none
1946	90	1.49	1.90	22.0	none	none
1947	90	1.84	2.29	31.2	none	none
1948	90	2.00	1.98	366.0	227.2	none
1949	90	1.95	1.88	380.8	327.7	none
1950	90	1.99	2.00	196.9	196.4	72.8
1951	90	2.18	2.11	212.8	143.3	<u>3/</u> 72.8
1952	90	2.20	2.09	460.5	470.0	none
1953	91	2.21	2.04	550.9	774.0	none
1954	90	2.24	2.14	<u>4/</u> 427.5	<u>6/</u> 935.0	62.0 M
1955	82 $\frac{1}{2}$	<u>7/</u> 2.06	N. A.			55.0 M
1956	--	--	--	--	--	<u>5/</u> 55.0

1/ Allotment under Agricultural Conservation Program. 2/ Marketing quota suspended, leaving acreage allotment in effect. 3/ Acreage allotments terminated. 4/ Through March 31, 1955. 5/ Quotas proclaimed; quota referendum to be held June 25, 1955. 6/ As of May 4, 1955. 7/ Minimum price.

OTHER CURRENT WHEAT PROGRAMS

International Wheat Agreement

The International Wheat Agreement is aimed at assuring markets for wheat to exporting countries and supplies of wheat to importing countries at equitable and stable prices. The U. S. and three other exporting countries are obligated under the Agreement to sell wheat only at the maximum price of \$2.05 per bushel, basis Canadian wheat and location, while importing countries are required to buy only at the minimum price of \$1.55 per bushel. (In the 1949-52 Agreement years, the maximum price was \$1.80 per bushel, while the minimum price dropped in 10-cent steps from \$1.50 in 1949 to \$1.20 in 1952.) Between the floor and the ceiling, wheat is free to move at prices agreed upon between buyer and seller.

Sales of U. S. wheat under the Agreement from August 1, 1949, through May 10, 1955 have totaled 1,178,000,000 bushels.

Special Wheat Export Program

The Commodity Credit Corporation has been selling some wheat outside the International Wheat Agreement since November 19, 1953, at prices approximately equal to Agreement prices. Persons buying the wheat for export are required to give evidence of export sales and certify that the wheat is not being substituted for International Wheat Agreement exports.

Sales for Foreign Currency

Public Law 480, enacted in 1954, authorizes, among other things, the sale over a period of 3 years of up to \$700,000,000 worth of surplus agricultural commodities for foreign currencies. The program is carried out through the private trade. Through May 11, 1955, a total of 24,000,000 bushels of wheat costing CCC \$86,519,000 had been sold for foreign currencies.

Public Law 665, enacted in 1954 and administered by the Foreign Operations Administration, provides that not less than \$350,000,000 shall be used to finance the export and sale of American surplus agricultural commodities for foreign currencies. Purchase authorizations for wheat in mid-May totaled almost \$104,000,000.

Famine Relief and Other Assistance

Title II, Public Law 480, authorizes the donation of commodities up to a value of \$300,000,000 to meet famine or other urgent relief requirements of friendly foreign nations. Through April 27, 1955, the export of 14,208,000 bushels of wheat, costing CCC \$45,294,000--and 39,367,000 pounds of flour, costing CCC \$3,385,000--had been authorized under Title II.

Barter

International barter for strategic and critical materials is authorized by the Commodity Credit Corporation Charter Act, as amended, and Section 303 of the Agricultural Trade Development and Assistance Act of 1954. In the fiscal year 1955, through April 30, 1955, a total of 33,244,000 bushels of wheat, having an exchange value of \$75,016,000, had been exported by contractors under the barter program.

EARLIER WHEAT STABILIZATION OPERATIONS

Federal Farm Board

The Agricultural Marketing Act of 1929 established the Federal Farm Board and set up a revolving fund of \$500,000,000 for carrying out the purposes of the act. These were "to promote effective merchandising of agricultural commodities. . . so that the industry of agriculture will be placed on a basis of economic equality with other industries. . . by aiding in preventing and controlling surpluses in any agricultural commodity. . . so as to prevent such surpluses from causing undue and excessive fluctuations or depressions in prices for the commodity."

The Board made loans to stabilization corporations set up to stabilize prices of wheat and cotton; made "supplemental" loans—additional advances on commodities already subject to bank loans; and encouraged the formation of farmers' cooperatives, to which it made what were, in effect, price supporting loans.

The economic climate in which the Board functioned was unfavorable, however. The world-wide depression, the increase of foreign production, restrictions on international trade, and a large increase in domestic production (for which there were no control mechanisms, such as acreage allotments and marketing quotas) created pressures with which the Board could not cope, and its operations were liquidated in the early 1930's. A final accounting shows that of the original revolving fund of \$500,000,000, losses amounted to \$381,000,000, of which \$147,200,000 represented losses on wheat.

Adjustment Payments

Under the Agricultural Adjustment Act of 1933, wheat farmers entered into contracts with the Government to reduce acreage in specified surplus crops (including wheat) in return for benefit payments. The payments were financed chiefly by taxes levied on the milling of wheat for human consumption.

The adjustment program was brought to a sharp halt by the Supreme Court decision in the Hoosac Mills case in January 1936. The Court held in this case that the Agricultural Adjustment Act of 1933 was unconstitutional because any authority for regulating and controlling agricultural production, resides in the States, not the Federal Government. The processing tax was also declared void because it was an inseparable part of the scheme for effecting production control.

Acreage Allotment Payments

The Soil Conservation and Domestic Allotment Act of 1936 authorized payments to farmers (including wheat farmers) who could show positive performance in improving and conserving farm and range land. As contrasted with the Agricultural Adjustment Act of 1933, the Soil Conservation and Domestic Allotment Act of 1936 authorized unilateral offers instead of contracts; conditional payments replaced benefit payments; direct appropriations replaced processing taxes; and the emphasis was shifted from acreage control toward soil conservation. Allotment payments were made in the fiscal year 1937; none were made in 1938; then payments were made in each of the years from 1939 through 1944.

Surplus Removal (Section 32)

Congress in 1935 passed legislation aimed, in general, at widening market outlets for surplus farm commodities, including wheat. This legislation (Section 32, Public Law 320, 74th Cong.) authorizes the Department of Agriculture with respect to agricultural commodities and products, to: (1) encourage exports; (2) encourage their domestic consumption through diversion from normal channels of trade and commerce or by increasing their utilization among persons in low-income groups. Section 32 provides that 30 percent of the receipts from customs duties shall be available for the programs.

Section 32 funds were used to increase consumption of wheat and wheat flour beginning in the fiscal year 1936. Activity was particularly heavy in the years 1938-43 inclusive, when Section 32 funds were being used to finance wheat flour use. Section 32 funds have been used off and on since 1943 to stimulate use of wheat and wheat products, but in recent years the payments have been mainly in connection with perishable commodities.

Parity Payments

Section 303, Agricultural Adjustment Act of 1938, provides that "if and when appropriations are made therefor, the Secretary (of Agriculture) is authorized and directed to make payments to producers of corn, wheat, cotton, rice, or tobacco on their normal production of such commodities in amounts which, together with the proceeds thereof, will provide a return to such producers which is as nearly equal to parity price as the funds so made available will permit." Parity payments on wheat were made only in the 5-year period, 1940-44.

RELATED WHEAT OPERATIONS

Acreage Allotments and Marketing Quotas

Details on allotments in effect--either in conjunction with marketing quotas or not--are included in Table 1, page 5.

The referendum voting on wheat marketing quotas in other years was as follows:

	Yes	No	Percent Yes
1941	453,569	106,061	81.0
1942	323,030	69,081	82.4
1954	390,221	57,536	87.2
1955	208,623	76,023	73.3

Federal Crop Insurance

Title V, Agricultural Adjustment Act of 1938, authorizes insuring farmers against losses from causes beyond their control, such as weather, insects, and disease. With the exception of the fiscal year 1945, crop insurance has been available continuously since 1940. In 1955, about 125,000 wheat crop insurance contracts are in effect in over 400 major wheat-producing counties.

PROGRAM COSTS

The Office of Budget and Finance, U. S. Department of Agriculture, has prepared statistics showing the realized cost of programs primarily for stabilization of farm prices and incomes for the fiscal years 1932 through 1954. These costs, for wheat and wheat products, are attributable to the following programs:

<u>Program</u>	<u>Millions</u>
CCC nonrecourse loan, purchase, and payment program.....	\$ 166.4
CCC supply, export, and other activities.....	30.6
International Wheat Agreement.....	602.4
Assistance to other friendly nations.....	73.1
Removal of surplus commodities (Section 32).....	136.0
Federal crop insurance.....	5.8
Acreage allotment payments under the Agricultural Conservation Program.....	351.2
Agricultural adjustment programs (principally acreage allotments and marketing quotas).....	19.5
Parity payments.....	328.2
Agricultural Adjustment Act of 1933 and related acts.....	109.7
Agricultural Marketing Act Revolving fund, and payments to stabilization corporations for losses incurred (Federal Farm Board).....	147.2
Transportation and handling of emergency feed.....	2.1
Total wheat and wheat products	1,972.2

* * * * *

The following table shows certain important wheat supply and consumption figures for the crop years 1938-55 inclusive.

Wheat: Supply and disappearance, United States, 1938-54
(Flour and other wheat products in terms of wheat)

Year beginning July	Supply			Disappearance			Total Exports U.S. dis- appear- ance
	Carry- over	Pro- duct- ion	Imports:	Total	Processed for food	Seed, feed, and indu- trial use	
			mil. bu.	mil. bu.	mil. bu.	mil. bu.	
1938	153.1	919.9	4	1,073.4	496.2	216.0	111.2
1939	250.0	741.2	4	991.6	488.8	174.1	662.9
1940	279.7	814.6	3.6	1,097.9	489.4	186.2	675.6
1941	384.7	942.0	3.7	1,330.4	472.9	178.4	651.3
1942	630.8	969.4	1.1	1,601.3	495.0	125.7	920.7
1943	618.9	843.8	136.5	1,599.2	477.3	696.7	1,174.0
1944	316.6	1,060.1	42.4	1,419.1	472.7	463.7	936.4
1945	279.2	1,107.6	2.0	1,388.8	473.7	399.9	873.6
1946	100.1	1,152.1	1	1,252.3	479.4	264.4	743.8
1947	83.8	1,358.9	2	1,442.9	484.0	270.2	754.2
1948	195.9	1,294.9	1.6	1,492.4	471.4	200.6	672.0
1949	307.3	1,098.4	2.2	1,407.9	484.3	192.2	676.5
1950	424.7	1,019.4	11.9	1,456.0	489.8	190.3	379.7
1951	396.2	980.8	31.7	1,408.7	481.5	180.4	491.1
1952	255.7	1,299.0	21.5	1,576.2	474.2	206.4	680.6
1/1953	562.5	1,169.5	5.5	1,737.5	473.7	130.7	604.4
1/1954	901.9	969.8	(3.0)	(1,874.7)	472.0	109.7	581.7
1/ 1955	1,030.0						